



GSAssociates

Business Partners and Certified Public Accountants

Payphone Compensation Audit
XO Communications, LLC.



Independent Auditor's System Report
For Payphone Compensation
As required by FCC Order 03-235
Docket No. 96-128



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Independent Auditor's Report **System Audit Report**

Senior Management
XO Communications, LLC

At the request of the management of XO Communications, LLC, we have examined the call tracking systems of XO Communications, LLC and its interexchange and local exchange carrier operating subsidiaries (collectively "XO") for payphone calls in compliance with FCC Order 03-235, Docket No 96-128. XO management is responsible for compliance with those requirements. (See Appendix 'B') Our responsibility is to express an opinion on XO's compliance based on our examination.

Our examination included procedures to obtain reasonable assurance about whether the controls included in our audit were suitably designed to achieve the control objectives – namely, that the call tracking system of XO accurately tracks payphone calls to completion and that XO satisfactorily complied with and applied these controls and such controls will be placed in operation consistently in the future.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence of compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on XO's compliance with specified requirements.

In our opinion, XO complied, in all material respects, with the aforementioned requirements for the period mentioned through June 1, 2012. XO has sufficient controls in place to provide reasonable assurance to achieve the control objectives outlined in FCC Order 03-235 Docket 96-128

The description of policies & procedures concerning Payphone Compensation at XO, as well as information concerning tests of the operating effectiveness includes the period of Q1 2012. Information concerning payments made includes the period through Q4 2011 which is the latest quarter that XO had processed and remitted compensation to payphone service providers at the time we began our audit. Future projection of such information is subject to the inherent risk that, because of change, the description may no longer portray those procedures in existence. The potential effectiveness of specific controls at XO is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that, (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for the information and use of XO, and is not intended to be and should not be used by anyone other than the specified party.

GSAssociates, CPA's

GSAssociates
June 27, 2012



Overview of System Audit Requirements

This System Audit Report covers FCC Order (03-235, Docket No 96-128), effective July 1, 2004 (the “Order”), requiring Interexchange Carriers (“IXCs”), incumbent local exchange carriers (“LECs”), competitive local exchange carriers (“CLECs”) and Switch Based Resellers (herein collectively or individually referred to as a “Carrier”), to establish and maintain a comprehensive Call Tracking System (“CTS”) which accurately reports and compensates Payphone Service Providers (“PSPs”).

The Order calls for an independent third party audit report in conformity with AICPA standards. The independent auditor’s report shall conclude whether the Carrier complied, in all material respects, with the factors set forth (below) regarding the CTS as follows:

- 1) Whether the Carrier’s procedures accurately reflect the Commission’s rules, including the attestation reporting requirements.
- 2) Whether the Carrier has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone completed calls.
- 3) Whether the Carrier has effective data monitoring procedures.
- 4) Whether the Carrier adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability.
- 5) Whether the Carrier has created a compensable payphone call file by matching call detail records against payphone identifiers.
- 6) Whether the Carrier has procedures to incorporate call data into required reports.
- 7) Whether the Carrier has implemented procedures and controls needed to resolve disputes.
- 8) Whether the independent third-party auditor can test all critical controls and procedures to verify that errors are insubstantial.
- 9) Whether the Carriers have adequate and effective business rules for implementing and paying payphone compensation.



Audit Process & Procedures

Our audit reports on all nine (9) control points outlined in the Order. The guidelines used to conduct and prepare the report are established in the AICPA's Statements on Standards for Attestation Engagements ("SSAE"), specifically, SSAE 10, AT Section 101 Attest Engagements and AT Section 601 Compliance Attestation.

Those standards required that we:

- 1) Have adequate technical training and proficiency in the attest function.
- 2) Perform the attest function using practitioners having adequate knowledge of the subject matter.
- 3) Evaluate the subject matter against suitable criteria such as:
 - a) *Objectivity* – free of bias
 - b) *Measurability* – reasonable consistent measurements, qualitative or quantitative, of subject matter.
 - c) *Completeness* – sufficiently complete so that relevant factors that would alter a conclusion about subject matter are not omitted.
 - d) *Relevance* – criteria relevant to the subject matter.
- 4) Maintain an Independent mental attitude in all matters relating to the engagement.
- 5) Exercise due professional care in the planning and performance of the engagement.
- 6) Obtain sufficient evidence to provide reasonable basis for our conclusion expressed in the report.

XO has designed, implemented and manages an in-house call tracking system. XO utilizes the services of an outsourced clearinghouse, National Payphone Clearinghouse ("NPC") to process XO-provided call detail records ("CDR"), compensate PSPs and satisfy all FCC-mandated reporting requirements. We have attached NPC's SAS 70 report as Appendix "A". The scope of this audit as it relates to compensation is through December 31, 2011, which is the latest quarter that XO had processed and remitted compensation. The scope of this audit as it relates to XO's processes and procedures subject to the Order is through June 1, 2012.



PAYPHONE COMPENSATION Policies & Procedures

XO has established and documented policies & procedures specifically in compliance with the Order. These include, but are not limited to:

1. Backup Policy
2. Core Security / Critical Data Requirements Policy
3. Defect Tracking Process
4. Software Quality Testing Process
5. Change Control Policy
6. Host / Server Security Policy
7. Password Policy
8. Log Tracking & Archive Process
9. Physical Security Policy
10. Information Access Control Policy
11. Monitoring Policy
12. Firewall Policy

GSAssociates has verified with Danny Sangster, Senior IT Manager for XO that these policies are in effect. In addition, through interviews it was determined that no changes can be made to the software controlling the call tracking system without appropriate approvals, additionally XO management has provided written attestation supporting this point.

Responsible Dedicated Staff

XO has dedicated staff responsible for tracking, compensating, reporting and resolving disputes concerning completed calls as follows:

1. Danny Sangster, IT Senior Manager; Lisa Youngers, Vice President, Federal Affairs; and Kevin Span, Senior Manager Vendor Relations, Telco Management, are responsible for drafting necessary business requirements.
2. Danny Sangster, IT Senior Manager, is responsible for developing and maintaining systems to create payphone call records from switch records.
3. Malachy Duggan, Carrier Relations Financial Analyst, is responsible for implementing and maintaining procedures that check the validity of identified payphone records.
4. Danny Sangster, IT Senior Manager, is responsible for implementing & maintaining procedures that create final compensation data sets.
5. Lee Churchill, a Telco Audit Supervisor, is responsible for developing compensation tracking reports.
6. Lee Churchill, a Telco Audit Supervisor, is responsible for dispute resolutions.



Data Monitoring Procedures

XO has developed a systematic reporting process to generate monthly and quarterly reports on payphone call counts, numbers called, and info digits used.

These reports reflect:

- a) Trends of switch traffic volumes entering their payphone compensation systems.
- b) Possible fraud on potential illegitimate payphone calls.
- c) Trends of excluded calls.
- d) The capability to develop customized reports to help resolve disputes.
- e) Capacity for other appropriate trending reports.

GSA has reviewed and documented these reports and finds that they are complete, valid and functional. We find that these reports are used during the compensation process to verify the accuracy of the data. Kevin Span, Senior Manager Vendor Relations, Telco Management, and representatives from National Payphone Clearinghouse, GSA verified that the company has access to other standard reports and ad hoc reports can be requested and created. GSA requested that certain data be queried in a form not normally produced through the call tracking system and reporting methods. These reports were produced in reasonable period of time and were accurate and tied to standard reports normally used in the compensation process.

Compensation Assurance Protocols

XO has personnel and established procedures which guarantee that the company will remain in compliance with current FCC requirements. These procedures ensure that software, personnel, or any other network changes or additions to the payphone compensation process are completed in accordance with guidelines and approvals documented in aforementioned procedure section and do not adversely affect its call tracking capabilities.

GSA has reviewed these procedures in past audits. XO has provided written attestation that no significant or material changes to protocols have occurred since the last review. We have concluded that the procedures in place remain adequate and comprehensive. GSA conducted interviews with Kevin Span, Senior Manager Vendor Relations, Telco Management, and Danny Sangster, IT Senior Manager, the responsible party for software assurance. Mr. Span and Mr. Sangster individually verified that there have not been any significant changes to the program code, stored procedures or report systems for the call tracking system or payphone compensation system to date.



Compensable Call File and Reporting

XO retrieves all relevant call data directly from its switch CDR and prepares online reports for utilization in the compensation process. XO compiles, through various filters accepted by industry standards and FCC requirements, the appropriate compensable call detail and electronically transmits this data to NPC for matching and payment. This process extracts data monthly. The data is then accumulated after a complete calendar quarter. The accumulated data file is transmitted to NPC for additional processing which includes the elimination of XO clients that have opted out of XO's compensation system. GSA reviewed the documented process and result reports, and found it to be complete and accurate.

Our review of the data file found that it contained all the necessary information to perform an ANI match and to prepare detailed reports for compensation to each separate PSP or Aggregator. GSA also reviewed the compensation results files provided to XO by NPC and found that the data corresponded to the original data set provided by XO to NPC.

The NPC files describe the results of the matching process; specifically total records, total calls, total ANIs as well as the subset of payphone originated calls and matched ANI's. NPC also identifies, mismatched, unclaimed and incorrect payphone originated calls. GSA reviewed the quarterly compensation invoice from NPC to XO, describing the amount needed to fund payments to the PSPs. These files and documents are complete and accurate.

Dispute Resolution Procedures

XO has assigned its representative, Lee Churchill, Telco Audit Supervisor, as the individual responsible for interfacing with NPC. NPC is the first contact for a PSP to request additional information regarding payphone-originated calls. NPC has previously provided its detail procedure for handling disputes from PSPs and through interviews with representatives of NPC found that these procedures remain in effect. As mentioned earlier, NPC's SOC audit report is attached as substantiation of NPC's continued compliance with FCC rules.

If NPC cannot determine an appropriate answer to a payment question, they are directed to the XO responsible party. This process is further outlined in XO's Dispute Resolution procedure which has been previously reviewed and through attestation remains in effect.

Kevin Span, Senior Manager Vendor Relations, Telco Management, indicated that since the last review there have not been any disputes brought to XO's attention.



Compensation Verification

GSAssociates has determined that XO has properly compensated PSPs through the 4th Quarter of 2011.

GSA has reviewed Q4 11 payment files and matched the data to XO provided CDR and has found no discrepancies. NPC has verified that funds were transferred to NPC and remitted to the appropriate PSPs.

Audit Conclusions

FCC Relevant Rules Accurately Stated

XO has established, defined, and documented in accordance with relevant FCC Rules each of the following:

- Per-call rate.
- Calls included as compensable calls
- Definition of completed call.
- Reporting requirements.
- Data Storage Requirements.

Established Security Protocols

XO has implemented security protocols to limit access to call tracking systems in a controlled environment to authorized personnel. Monitoring tracking systems have been installed to limit access to the company's call tracking system. Access to compensation systems is controlled and monitored as well as limited to authorized personnel through security measures which have been implemented.

Audit Findings

XO is a national provider of local and long distance telecommunications services to businesses, large enterprises and telecommunications carriers. XO delivers its services over its own network of metropolitan fiber rings and long haul fiber optic facilities and through the use of facilities and services leased or purchased from third party carriers, including incumbent local exchange carriers. XO is wholly owned by XO Holdings.



Through its subsidiaries, primarily XO Communications Services, LLC, XO is authorized to provide intrastate interexchange services in 49 states and to provide competitive local exchange services in 48 states as well as the District of Columbia.

GSA has tested and documented the compensation system in use as of the date of this report and found it to be accurate, effective and complete. GSA has validated payments made for Q4 of 2011. Our conclusion is that XO is in compliance for the period audited and compensation has been appropriately made to the PSPs or Aggregators through December 31, 2011.



APPENDICES

Appendix 1



KPMG LLP
Suite 3400
312 Walnut Street
Cincinnati, OH 45202

Independent Service Auditor's Report

The Board of Directors of Cincinnati Bell, Inc:

Scope

We have examined Cincinnati Bell, Inc.'s (Cincinnati Bell's) description of its Quarterly Dial-Around Compensation Processing system that National Payphone Clearinghouse (NPC) provides to its user entities to facilitate compliance with the applicable requirements of 47 C.F.R. Sections 64.1310 and 64.1320 of the Federal Communications Commission's ("FCC") Rules and Regulations regarding pay telephone per call compensation and related requirements included in CC Docket No. 96-128 throughout the period April 1, 2011 to March 31, 2012 (description) and the suitability of the design and the operating effectiveness of controls to achieve the related control objectives stated in the description. The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls contemplated in the design of Cincinnati Bell's controls are suitably designed and operating effectively, along with related controls at the service organization. We have not evaluated the suitability of the design or the operating effectiveness of such complementary user entity controls.

The information in section V of management's description of the service organization's system, "Other Information Provided by Cincinnati Bell," that describes Business Continuity/Disaster Recovery, is presented by management of Cincinnati Bell to provide additional information and is not a part of Cincinnati Bell's description of its system made available to user entities during the period April 1, 2011 to March 31, 2012. Information about Business Continuity/Disaster Recovery has not been subjected to the procedures applied in the examination of the description of the system and of the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description of the system, and, accordingly, we express no opinion on it.

Service organization's responsibilities

In its description, Cincinnati Bell has provided an assertion about the fairness of the presentation of the description, the suitability of the design and the operating effectiveness of the controls to achieve the related control objectives stated in the description. Cincinnati Bell is responsible for preparing the description and for the assertion, including the completeness, accuracy, and method of presentation of the description and the assertion, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting and using suitable criteria, and designing, implementing, and documenting controls to achieve the related control objectives stated in the description.

Service auditors' responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the description, the suitability of the design and the operating effectiveness of the controls to achieve the related control objectives stated in the description, based on our examination. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our examination to obtain reasonable assurance about whether, in all material respects, the description is fairly presented, the controls were suitably designed and the controls were operating effectively to achieve the related control objectives stated in the description throughout the period April 1, 2011 to March 31, 2012.



Appendix 1 Con't



An examination of a description of a service organization's system and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives stated in the description involves performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design and the operating effectiveness of those controls to achieve the related control objectives stated in the description. Our procedures included assessing the risks that the description is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives stated in the description. Our procedures also included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the related control objectives stated in the description were achieved. An examination engagement of this type also includes evaluating the overall presentation of the description and the suitability of the control objectives stated therein, and the suitability of the criteria specified by the service organization and described in management's assertion. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Inherent limitations

Because of their nature, controls at a service organization may not prevent, or detect and correct, all errors or omissions in processing or reporting transactions. Also, the projection to the future of any evaluation of the fairness of the presentation of the description, or conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become inadequate or fail.

Opinion

In our opinion, in all material respects, based on the criteria described in Cincinnati Bell's assertion, (1) the description fairly presents the Quarterly Dial-Around Compensation Processing system that was designed and implemented throughout the period April 1, 2011 to March 31, 2012, (2) the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period April 1, 2011 to March 31, 2012, and (3) the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description in section IV were achieved, operated effectively throughout the period April 1, 2011 to March 31, 2012.

Description of tests of controls

The specific controls and the nature, timing, extent, and results of the tests are listed in section IV.

Restricted use

This report, including the description of tests of controls and results thereof in section IV, is intended solely for the information and use of Cincinnati Bell, user entities of Cincinnati Bell's Quarterly Dial-Around Compensation Processing system during some or all of the period April 1, 2011 to March 31, 2012, and the independent auditors of such user entities, who have a sufficient understanding to consider it, along with other information including information about controls implemented by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. This report is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

April 23, 2012
Cincinnati, Ohio



Appendix 2



XO Communications Services, LLC

Report of Management on Compliance with Applicable Requirements of Section 64.1310(a)(1) of the FCC's Rules and Regulations

The management of XO Communications Services, LLC is responsible for establishing and maintaining adequate systems and processes for its Pay Telephone Call Tracking System and for ensuring the Company's compliance with the applicable requirements of Section 64.1310(a)(1) of the FCC Report and Order in CC Docket No. 96-128, released on October 3, 2003, regarding *The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*.

Management has performed an evaluation of the company's compliance with the applicable requirements of CC Docket No. 96-128 using the criteria in 64.1320(c) as the framework for the evaluation. Based on this evaluation, we assert that as of July 1, 2004, the Company complies with all applicable requirements of CC Docket No. 96-128.

We have prepared the required assertion statements relating to the Company Payphone Call Tracking Systems.

Company is acknowledged as the "Completing Carrier" in the following call scenarios:

- Local Toll and Local Operated assisted calls with the Info Digits (7, 27, and 70) completed by Company ("0" indicator).

All assertions for Company are from the point Company has visibility to the call tracking data.

Company utilizes a payment clearinghouse for payphone compensation settlement. As such, Factors (6) and (7) in their entirety and Factors (8) and (9) collectively are covered under the SAS-70 compliance report issued for the clearinghouse. Company has procedures in place to verify that controls and procedures relating to these assertions have been established and maintained. An independent accounting firm has performed an independent assessment of the effectiveness of such controls.



Appendix 2 (continued)

Company represents the following assertions where it is identified as the Completing Carrier:

FCC Compliance Factor (1) – Company (“Completing Carrier”) procedures accurately track calls to completion.

FCC Compliance Factor (2) – Company (“Completing Carrier”) has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone-completed calls.

FCC Compliance Factor (3) - Company (“Completing Carrier”) has effective data monitoring procedures.

FCC Compliance Factor (4) - Company (“Completing Carrier”) adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability.

FCC Compliance Factor (5) – Company (“Completing Carrier”) creates a compensable payphone call file by using internal customer information matched to toll free records. This file contains all payphone traffic with payphone identifiers.

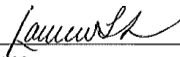
FCC Compliance Factor (6) – Company (“Completing Carrier”) has procedures to incorporate call data into required reports and making payment to PSPs.

FCC Compliance Factor (7) - Company (“Completing Carrier”) has implemented procedures and controls needed to resolve payphone compensation disputes.

FCC Compliance Factor (8) – Critical controls and procedures have been tested by Company (“Completing Carrier”) to verify that errors are insubstantial.

FCC Compliance Factor (9) – Company (“Completing Carrier”) has in place adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls originated from payphones; (ii) identify compensable payphone calls; (iii) identify incomplete or otherwise non-compensable calls; and (iv) determine the identities of the payphone service providers to which Completing carrier owes compensation.

Dated: 26 June 2012



Name:
Laura Thomas
XO Communications Services, LLC